



A One-in-Four Chance

Posted by [Pierluigi Oliverio](#) on Monday, May 23, 2011

On Tuesday the Council will discuss the fiscal reform proposals that Mayor Reed has researched and constructed. It will not be not an ordinary city council meeting but instead a major discussion being held in big cities across the country.

Last week, the Council had a study session regarding the City's retirement system. From my view, the presentation given by staff, which included the director of retirement services, Russell Crosby, was one of the best I have seen. A step by step explanation of the retirement system was provided.

It is clear that the retirement system itself does not scale. Through no fault of the individual retirement participant, the system itself is structured on a poor foundation that will eventually collapse .

The meeting included candid comments from Mr. Crosby. The most notable comment was the "death spiral," which is when you have employee-to-retiree ratio parity. For example, in the past, the City has had as many as six employees supporting each retiree. That has now dropped to approximately 1.3 employees-to-retiree and continues to fall as the baby boomers retire and live longer.

The city pension system is like a mini Social Security system that constantly requires new people paying in to keep it afloat. Some use the "Ponzi scheme" analogy when it comes to defined benefit plans and there appear to be similarities. San Jose has funded a portion of the total amount it needs to cover all those who are eligible, which is unlike Social Security, which is not funded but rather has a file cabinet in Virginia of IOU's passing it on to the next generation.

Some say just don't worry and pay later. The City cannot emulate the issuing of IOU's as the Federal government has done and raise the national debt to pay retirees. If San Jose stopped paying the minimum annual payment the pension fund would run out of money in approximately eight years. So, some might say, well let's just pay half the payment. Well, that would allow the payments to go further past

eight years but not much more as there will be additional costs to not making the full annual payment.

To some extent you may think of the pension system as something one could walk away from, like a mortgage payment on a house that is underwater. But since the taxpayers are on the hook and retirees are dependent that changes the analogy. It would be like walking away from a house, however, the difference is you have left your friends inside the house with no food or utilities and they are bed-ridden.

One stat that basically admits the retirement system does not scale is that the fund has only a 25 percent chance of actually earning the assumed rate of return. Anytime it does not hit the assumed rate of return, it creates an unfunded liability. Personally, I would not do something so important in my own life if I only had a 25 percent chance of making the goal. If we want a higher likelihood of hitting the assumed rate of return then we must lower the rate. But that will require more revenue going into the pension system in the short term, which equates to more cuts in services, thus layoffs or raising taxes and seeing the new revenue only going to the pension system.

The [Retirement Reform Budget Study Session](#) is available here. I highly recommend downloading the presentation and reviewing it as I feel it is one of the best presentations given to the Council on the retirement system and contains much more information than I have written in this short blog post. I have already shared it with a few retirees that have emailed me on the topic. Accurate information is beneficial as demonstrated by the police union hiring an independent actuarial who confirmed that changes must happen to the pension system.

On another topic the total amount of sick-leave liability on the books today is \$114,825,100. Approximately \$20 million could be paid out this year based on individuals with the ability to retire.

On to happier matters: Congratulations to the Lincoln Glen Little League for hosting the 2nd Annual Challenger Game. The Challenger Game includes mentally and physically challenged 5-18 year olds who each get a buddy from the Little League to play a baseball game. Puts life in perspective.

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